Supreme Court, U.S.
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No. 02-727

IN THE

Supreme Court of the United States

TY INC.,

Petitioner,

v.

PUBLICATIONS INTERNATIONAL, LTD.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

REPLY BRIEF

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STATEMENT PURSUANT TO RULE 29.6

Petitioner's corporate disclosure statement was set forth at page *ii* of its Petition for a Writ of Certiorari, and there are no amendments to that statement.

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The petition for certiorari established that this case presents an important and recurring question of federal copyright law on which the circuits are now divided. Holding that the Congressionally mandated fair use factors are "empty" and otherwise irrelevant, the Seventh Circuit has divined an economics-based, non-statutory right for third parties to use as much copyrighted material as they need to compete in the marketplace against copyrighted works or licensed derivative works. No other court has ever recognized such a right, and in fact this Court and every other court that has been confronted with questions of fair use have consistently held that the four statutory factors must be considered and weighed in every case, which is precisely what the Seventh Circuit refused to do.

The question presented is vitally important. The Seventh Circuit's holding substantially and immediately undermines the ability of copyright holders to license derivative works. Indeed, the *direct effect* of the Seventh Circuit's marketability standard, which respondent openly embraces, is to place licensed derivative works into direct competition with publishers such as respondent. The very point of copyright, by contrast, is to grant copyright holders a limited monopoly in the copyrighted works and derivatives thereof — *i.e.*, so that the holder need not compete against other persons using the copyrighted materials. Indeed, that is the overriding consideration that motivates the creation of new copyrightable works. "The market for derivative works is an economically important part of the copyright owner's market, and therefore an important part of the incentive that drives the copyright system." 1 William F. Patry, *Copyright Law and Practice* 773 (1994). *See also Campbell v. Acuff-Rose Music*, 510 U.S. 569, 593 (1994) ("the licensing of derivatives is an important economic incentive to the creation of originals"). The Seventh Circuit's decision runs directly contrary to the statutory scheme because it grants third parties a statutory right to use the copyrighted material without paying the cost of a license, thereby making it all but impossible for a copyright holder such as petitioner to find

persons willing to pay a fee to license derivative works. Respondent notably disputes *none* of this.

The arguments respondent does offer in opposition to certiorari are unavailing. Preliminarily, respondent's contentions are all rooted in the same false syllogism that lies at the heart of the Seventh Circuit's decision. Respondent claims that the fair use doctrine confers not merely the right to use so much of the amount of copyrighted material as is necessary to engage in commentary or criticism, but the far more expansive right to use as much copyrighted material as is necessary to create a "marketable" product (which necessarily encompasses the right to *compete* against the copyrighted work or a derivative thereof). That holding is completely antithetical to the fair use doctrine as developed by Congress and the courts and the underlying purposes of copyright law.

Nor is there merit to respondent's two specific arguments against certiorari. First, respondent makes a passing attempt to dispute that the Seventh Circuit did, in fact, adopt a marketability test. But the court of appeals' decision is plain on its face, as respondent later admits. Second, respondent contends that the Seventh Circuit's marketability standard can be rationalized under the four factors Congress identified in the statute. But, as the district court concluded and the Second Circuit has held in indistinguishable circumstances, each factor weighs squarely against a finding of fair use in this context. Nor are there countervailing considerations. That the appellate court's ruling presents a conflict among the circuits is also plain given that the Seventh Circuit has specifically granted respondent's books the right to compete against works licensed by petitioner, which competition is, without question, a ground for *rejecting* a claim of fair use according to every other court to confront the issue.

1. Respondent's brief in this Court, like the Seventh Circuit's decision, rests on two principles: (i) that the fair use doctrine permits the use of copyrighted material in works of "commentary and criticism"; and (ii) that its collectors' guides can be characterized as such in some respects. *See* BIO 5-6;

Pet. App. 8a-11a. From these points, both respondent and the Seventh Circuit derive the rule that a third party has the right to use as much copyrightable material in its works of commentary or criticism as is necessary to *compete* with the copyrighted work or a derivative thereof. Respondent thus claims it is "obvious" that "if fair use allows, as it must, a *certain amount of copying* for the criticism and commentary purposes of a collectors' guide, it must allow *as much as is necessary* to make the guide marketable." BIO 2 (emphases added). When a litigant claims that a proposition of law relating to an established doctrine with a century-long pedigree is "obvious," but it is notably unable to find a single citation in support of that proposition (even in the treatise authored by its own counsel), it is almost certainly "obviously wrong." That is true here.

Take respondent's own examples: book reviews and parodies, both prototypical instances of "fair use." No one could seriously contend that a book review author has the right to copy enough of the book in order to compete with the book itself, a movie made as a "derivative" of the book, or an authorized anthology that included the book and other works of criticism. Similarly, no one could contend that a parody may include enough of a song in order to compete with the song, a score derived from the song, or a parody that the song's own author created. Rather — and this is the crux of the legal error in the Seventh Circuit's decision — the Copyright Act permits the copying of only so much of the copyrighted material as is necessary to engage in the type of "fair use" in question. *See Campbell*, 510 U.S. at 586-88. As the district court quite properly stated what was then settled law, fair use "does not grant PIL the right to use as much copyrighted material as it needs to make its product commercially popular." Pet. App. 45a.

The supposed form of fair use in this case is a work of "commentary or criticism." To the extent the statutory factors were satisfied, respondent would have the right to use petitioner's copyrighted material in order to produce a work of "commentary or criticism." But that is a *very* different

proposition than the one the Seventh Circuit embraced. Accepting for the moment that a collectors' guide can in some circumstances be characterized as a form of "commentary or criticism" (although many times it will not be, as when the "guide" includes nothing but unelaborated photographs of the copyrighted works), it makes no sense to conclude, and other circuits have refused to hold, that third parties have not merely the right to use sufficient copyrighted material as is necessary to "comment" or "criticize" but also the right to compete against licensed collectors' guides.

It makes no difference that, as the Seventh Circuit said and respondent repeats, "works of criticism and comment *generally* make complementary (or transformative, in first factor terms), as opposed to substitutional (or superseding, in first factor terms) use of the underlying work." BIO 5-6 (citing Pet. App. 6a-8a) (emphasis added). This is because a book review generally encourages or discourages the purchase of the book; it doesn't replace the book itself. The crux of the Seventh Circuit's reasoning, by contrast, is that fair use now gives third parties precisely the right to engage in "substitutional" commentary or criticism. Publishers like respondent now can use as much of the copyrighted work as they need to compete with — and thus substitute in sales for — derivative works.

The critical, uncontested finding in this case — and the one that makes respondent's suggestion of a remand for trial to determine if its works are non-infringing "commentary or criticism" totally unnecessary — is the district court's determination that respondent's use of hundreds of color photographs of petitioner's protected works goes "*far beyond* merely identifying their basic outline for the transformative purposes of commentary or criticism." Pet. App. 42a (emphasis added). In reaching that conclusion, the district court relied on the Second Circuit's decision in another infringement suit against

the same respondent: *Twin Peaks Products v. Publications International*, 996 F.2d 1366 (2d Cir. 1993).[1]

Respondent says that the court of appeals "noted that in order to effectively *comment* on the beanie babies (which are, after all, visual works), a collectors' guide needs to use photographs of the beanie babies, and *needs to be exhaustive*." BIO 6-7 (emphasis added). Later, respondent says that the court of appeals "based its conclusion on the commonsense fact that a collectors' guide for a collection of visual works such as Petitioner's sculptures needs to use photographs of the entire object, *and must be comprehensive*, in order to effectively *comment* on the object." BIO 10 (citing Pet. App. 13a-16a). But the Seventh Circuit did not, at the cited pages or anywhere else, reach that conclusion expressly or impliedly. The court of appeals did not contend, and no one seriously argues, that it is not possible to comment on or criticize Beanie Babies without including full-color photographs of every one of them. Indeed, as noted, the district court held precisely to the contrary and the Seventh Circuit did not disagree. Instead, the court of appeals reasoned (on the very pages respondent cites) that

> a collectors' guide, *to compete in the marketplace*, has to be *comprehensive*. Given that Ty can license (in fact has licensed) the publication of collectors' guides that contain photos of all the Beanie Babies, how could a competitor forbidden to publish photos of the complete line *compete*?

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1. Nor would this Court's resolution of the question presented be assisted by a remand for trial on whether respondent's use is "commercial." Contra BIO 9. Of course it is: that was the Seventh Circuit's entire point — to ensure that respondent could produce a "marketable" guide. As to the procedural posture of this case generally, certiorari is warranted so long as the court of appeals has finally articulated its legal standard, as in this case. *See, e.g.*, *Morgan v. AMTRAK*, 232 F.3d 1008 (9th Cir. 2000) (remanding for further proceedings with respect to limitation period on Title VII claims and issues relating to hostile work environment claims), *aff'd in part and rev'd in part*, 536 U.S. 101 (2002).

Pet. App. 13a-14a (emphases added). It is this right to compete, which the Seventh Circuit has conferred in a substantial departure from the precedents of this Court and other circuits, that makes this case certworthy beyond a shadow of a doubt.

2. Respondent does not dispute that the Seventh Circuit's holding that the fair use doctrine confers a right to compete is a substantial and important departure from settled copyright law justifying certiorari. Instead, it turns to pure hyperbole, calling this holding "a figment of Petitioner's imagination, created from scraps of dicta and analyses taken out of context" (BIO 1) and a "phantom test" (*id.* 12). For all the reasons just described, that is simply wrong; the question presented by the petition goes to the heart of the Seventh Circuit's analysis. The court of appeals itself set forth its inquiry as "whether PIL copied more than it had to in order to produce a *marketable* collector's guide." Pet. App. 13a (emphasis added). Any doubt is resolved by respondent's own subsequent characterization of the decision. BIO 6 ("[T]he court noted that *the fair use determination turned upon* 'whether PIL copied more than it had to in order to produce a marketable collectors guide.'" (emphasis added)); *see also id.* 2 (decision rests on the view that fair use "*must allow* as much [copying] as is necessary to make the guide marketable" (emphasis added)).

It is also clear that the Seventh Circuit abandoned the four statutory factors which, as respondent does not dispute, Congress provided, and other courts have faithfully held, "shall" be considered in any fair use case. 17 U.S.C. § 107.[2] The court of appeals said flatly that the statutory factors are "not illuminating." Pet. App. 15a. It said that a copyright holder can "get *nowhere* in defending [a] judgment [of infringement] by

2. Not only is respondent's view that "Congress did not, as Petitioner inaccurately asserts, 'codify' fair use" (BIO 4) irrelevant, it is simply wrong. "The statutory formulation of the defense of fair use in the Copyright Act reflects the intent of Congress to codify the common-law doctrine." *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 549 (1985).

arguing that some or *even all* of [the statutory factors] lean against the defense of fair use." *Id.* 16a (emphasis added). It called the first two factors "empty." *Id.* It said the third factor is "inapplicable." *Id.* And it deemed the fourth factor irrelevant other than to "glance[] at" the distinction between substitute and complementary copying. *Id.* Not even respondent can bring itself to recharacterize the decision below entirely, as it asserts that the Seventh Circuit deemed the statutory factors "unhelpful" (BIO 8) and "refus[ed] to weigh" them (*id.* 10).

The Seventh Circuit's unprecedented departure from settled law is already recognized in the literature as well. That is the conclusion of the *Copyright Law Journal*, as quoted in the petition (at 20). And the *New York Law Journal* recognizes that the decision below employs an "economic" approach to fair use that "dismisse[d] as 'not illuminating'" the statutory factors in Section 107. Lewis R. Clayton, *Intellectual Property Litigation*, N.Y.L.J., June 27, 2002, at 3.

Indeed, the departure from the statutory standard and cases faithfully applying it could not be any more dramatic, for the critical consideration on which the Seventh Circuit relied — that respondent be able to compete against derivative works licensed by petitioner — is routinely held by other courts to weigh *against* a finding of fair use, not in favor of it. Respondent goes so far as to contend that "any alleged economic harm to [the derivative] market is *irrelevant* to the fair use analysis." BIO 6 (emphasis added). This Court, by contrast, has determined that fair use copying may not have a "substantially adverse impact" on the market for derivative works. *Campbell*, 510 U.S. at 590. The Second Circuit similarly holds, in circumstances indistinguishable from this case, that such economic harm weighs against fair use. *Twin Peaks*, 996 F.2d at 1377; *Castle Rock Entertain. v. Carol Publ'g Group*, 150 F.3d 132, 145 (2d Cir. 1998).

3. Nor can respondent escape the conflicts created by the Seventh Circuit's decision on the theory that the decision below can be rationalized with the four fair use factors as applied by

other circuits and this Court. Respondent claims that the first factor — the nature of the allegedly infringing use — is supposedly "of especially little importance where the use is for the purpose of 'news reporting, commentary, criticism, teaching, scholarship, and research, since these activities are generally conducted for profit in this country.' " BIO 8 (quoting *Campbell*, 510 U.S. at 584 (internal quotations omitted)). Respondent's quotation from *Campbell* is taken seriously out of context, for the Court there merely rejected a *per se* fair use test that looked only to the commercial inquiry under the first factor. The truth is that respondent's use is commercial and non-transformative, so that the first factor weighs against finding fair use. *See* Pet. 15.

Respondent similarly addresses the second factor — the nature of the copyrighted work — by reference to "the criticism and commentary purpose of the collectors' guides." BIO 9. It notes that most *parodies* target publicly known, expressive works. *Id.* But the simple answer is that this case does not involve a parody, and the nature of the copyrighted work is a useful tool "in separating the fair use sheep from the infringing goats" (*Campbell*, 510 U.S. at 586) in the context of supposed commentary and criticism, which are *not* intrinsically directed at expressive works. Indeed, the Second Circuit has, on at least two occasions, considered and weighed the second factor against finding fair use when dealing with works of commentary. *Twin Peaks*, 996 F.2d at 1376; *Castle Rock*, 150 F.3d at 143-44.

Regarding the third factor — the amount of the copyrighted work that is copied — respondent simply repeats its assertion that "a collectors' guide for a collection of visual works such as Petitioner's sculptures needs to use photographs of the entire object, and must be *comprehensive*, in order to effectively comment." BIO 10 (emphasis added). Respondent notably abandons the Seventh Circuit's reasoning, which addressed the individual photos — i.e., that no one would ever seek to copy "part" of a single Beanie Baby toy (Pet. App. 16a) — a fact that, as the petition demonstrated (at 16), hardly justifies making

an infringing copy of the whole thing. Further, as the district court found and the Seventh Circuit did not dispute, it manifestly *is* possible for respondent to comment on or criticize Beanie Babies without including full-color photos of each of them. *See supra* at 3-6.

Finally, respondent argues that the fourth factor — the effect of the use on the market for the protected work — is irrelevant because a copyright holder's monopoly does not extend to works of criticism and commentary. BIO 11. Those fair uses, it explains, make "complementary use of copyrighted works, as opposed to substitutional use of the works, and [are] therefore likely to increase, rather than decrease, the value of the works." *Id.* But petitioner is not attempting to corner the market on commentary or criticism; and respondent's guide books are substitutional rather than complementary. A collection of full-color photographs of petitioner's copyrighted toys *is* a protected derivative work (*see* Pet. App. 9a (Seventh Circuit's acknowledgement of that proposition)), and respondent's books unquestionably undermine that market. Indeed, in the Seventh Circuit such books have a statutory right to undermine that market. Respondent cannot escape that fact by labeling its publications as "collectors' guides," much less as "commentary or criticism." In fact, this Court has ruled that when a work has a "complex character, with effects not only in the arena of criticism but also protectible markets for derivative works, . . . the *law looks beyond the criticism to the other elements of the work*," and evidence of substantial harm to the derivative market "would weigh against a finding of fair use." *Campbell*, 510 U.S. at 592-93 (emphasis added). The Second Circuit has also correctly recognized that, although an author "cannot preserve for itself the entire field of publishable works that wish to cash in on the [work's] phenomenon," the author "may rightfully claim a favorable weighting of the fourth fair use factor with respect to a book that reports the plot in such extraordinary detail as to risk impairment of the market for the copyrighted

works themselves or derivative works that the author is entitled to license." *Twin Peaks*, 996 F.2d at 1377.[3]

CONCLUSION

For the foregoing reasons, as well as those set forth in the petition, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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3. Petitioner notes that the Court may wish to call for the views of the Solicitor General in this case. In its October 2002 Term, the Court has issued such invitations in a number of important intellectual property cases, including No. 02-355, *Southern Building Code Congress Int'l. v. Veeck*, a copyright matter in which, although the en banc Fifth Circuit did not reach the question, the fair use doctrine plays a prominent role as a principal alternative ground urged by the respondent in his defense. *See Veeck v. Southern Building Code Congress Int'l*, 293 F.3d 791, 823-25 (5th Cir. 2002) (Wiener, J., dissenting for five members of the court). *See also* No. 02-39, *Micrel v. Linear Tech. Corp.* (patents); No. 02-197, *Monsanto Co. v. Bayer CropScience* (same); No. 02-429, *Dethmers Mfg. v. Automatic Equip. Mfg.* (same).